

B U S I N E S S S I T U A T I O N

Ralph W. Morris prepared the first section of this article, and Daniel Larkins prepared the section on corporate profits.

REAL GROSS domestic product (GDP) increased 5.7 percent in the third quarter of 1999, according to the "final" estimates of the national income and product accounts (NIPAs), after increasing 1.9 percent in the second quarter (table 1 and chart 1).¹ The general picture of the economy that is indicated by the final estimates is little changed from that shown by the preliminary estimates.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and for all quarters except those for the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers

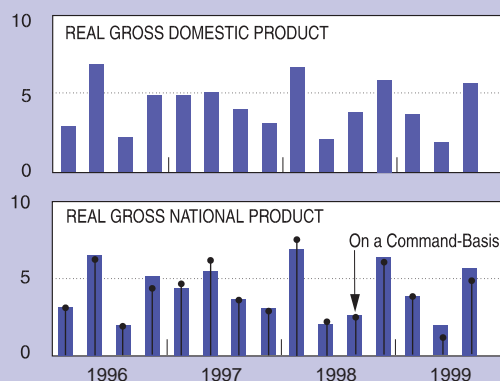
[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter						
						1998		1999	
	1999	1998	1999						
	III	IV	I	II	III	IV	I	II	III
Gross domestic product	8,900.6	123.2	78.7	40.7	122.0	5.9	3.7	1.9	5.7
Less: Exports of goods and services	1,054.8	37.8	-14.4	10.0	28.4	16.1	-5.5	4.0	11.5
Plus: Imports of goods and services	1,393.0	32.1	37.8	44.5	47.6	10.8	12.5	14.4	14.9
Equals: Gross domestic purchases	9,216.9	117.3	125.9	70.8	138.7	5.5	5.8	3.2	6.3
Less: Change in private inventories	38.0	-5.4	-20.6	-36.1	24.0				
Nonfarm	41.2	-19.3	-15.1	-30.0	28.1				
Farm	-3.8	14.9	-5.4	-6.5	-4.7				
Equals: Final sales to domestic purchasers	9,172.2	123.0	144.2	103.0	114.4	5.8	6.7	4.7	5.2
Personal consumption expenditures	6,033.3	65.1	92.6	73.4	71.5	4.6	6.5	5.1	4.9
Durable goods	821.2	34.8	22.8	17.3	15.1	20.4	12.4	9.1	7.7
Nondurable goods	1,779.3	20.6	36.9	14.2	15.6	5.0	8.9	3.3	3.6
Services	3,440.6	12.4	34.5	42.7	41.4	1.5	4.2	5.2	5.0
Gross private domestic fixed investment	1,607.3	48.5	33.4	25.1	26.3	13.8	9.1	6.6	6.8
Nonresidential fixed investment	1,234.3	40.5	21.9	20.2	31.4	15.3	7.8	7.0	10.9
Structures	246.1	3.6	-3.8	-3.4	-2.4	5.8	-5.8	-5.3	-3.8
Equipment and software	996.6	37.9	27.2	25.2	35.7	18.6	12.5	11.2	15.2
Residential investment	375.1	8.4	11.1	5.1	-3.7	9.8	12.9	5.5	-3.8
Government consumption expenditures and gross investment	1,536.5	10.6	18.7	4.9	17.0	2.9	5.1	1.3	4.5
Federal	539.7	5.0	-6	2.8	5.5	3.9	-5	2.1	4.1
National defense	348.3	-2.6	-3.5	-2.2	9.1	-2.9	-4.0	-2.6	11.2
Nondefense	191.3	7.5	2.8	5.0	-3.6	17.8	6.1	10.9	-7.1
State and local	996.6	5.5	19.3	2.2	11.5	2.3	8.2	.9	4.8
Addendum: Final sales of domestic product	8,855.8	128.7	96.9	72.7	97.9	6.2	4.6	3.4	4.5

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table S.1. (See "Selected NIPA Tables," which begins on page D-2 of this issue.)

CHART 1

**Selected Product Measures:
Change from Preceding Quarter**
Percent



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

	1998	1999		
	IV	I	II	III
Percent change at annual rate:				
Gross domestic product	5.9	3.7	1.9	5.7
Percentage points at annual rates:				
Personal consumption expenditures	3.13	4.27	3.36	3.33
Durable goods	1.51	.96	.71	.62
Nondurable goods .....	.98	1.68	.64	.73
Services .....	.64	1.63	2.01	1.97
Gross private domestic investment	1.94	.67	-.36	2.25
Fixed investment	2.20	1.48	1.10	1.16
Nonresidential	1.79	.94	.86	1.33
Structures .....	.18	-.18	-.16	-.11
Equipment and software	1.61	1.12	1.02	1.44
Residential .....	.41	.53	.24	-.17
Change in private inventories	-.26	-.80	-1.46	1.09
Net exports of goods and services .....	.33	-2.13	-1.35	-.72
Exports	1.65	-.61	.42	1.19
Goods	1.38	-.74	.32	1.19
Services .....	.27	.13	.10	0
Imports	-1.32	-1.52	-1.77	-1.91
Goods	-1.29	-1.28	-1.59	-1.83
Services	-.03	-.24	-.19	-.08
Government consumption expenditures and gross investment .....	.51	.87	.23	.81
Federal .....	.24	-.03	.13	.26
National defense	-.12	-.16	-.10	.42
Nondefense .....	.36	.13	.23	-.16
State and local .....	.28	.90	.10	.55

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

The largest contributors to the third-quarter increase in real GDP were consumer spending for services, private investment in equipment and software, private inventory investment, and exports of goods and services (table 2). The increase in GDP was moderated by an increase in imports of goods and services, which are subtracted in the calculation of GDP.

The acceleration in real GDP reflected an upturn in private nonfarm inventory investment and accelerations in exports of goods, in gov-

ernment spending, and in private investment in equipment and software. These changes were partly offset by a downturn in private residential investment.

Real inventory investment—that is, the change in private inventories—increased \$24.0 billion in the third quarter, as inventory accumulation stepped up to \$38.0 billion from \$14.0 billion; inventory investment had decreased \$36.1 billion in the second quarter. In the third quarter, the ratio of real nonfarm inventories to real final sales of domestic businesses decreased to 2.09 from 2.10; the ratio has declined slightly in each of the past four quarters.

The “final” estimate of the change in real GDP is 0.2 percentage point more than the 5.5-percent increase indicated by the “preliminary” estimate reported in the December “Business Situation” (table 3). For 1978–98, the average revision (without regard to sign) from the preliminary estimate to the final estimate was 0.3 percentage point. The upward revision to real GDP primarily reflected upward revisions to private nonfarm inventory investment and to consumer spending for services; these revisions were partly offset by a downward revision to private nonresidential fixed investment. In inventory investment, the upward revision largely reflected the incorporation of revised Census Bureau data on merchant wholesale trade inventories. In consumer spending for services, the upward revision reflected revised Bureau of Economic Analysis international transactions accounts data on net foreign travel, newly available trade source data on stock exchange transactions, and newly available Securities and Exchange Commission data on brokerage commissions. In private nonresidential fixed investment, most of the downward revision was to equipment and software, reflecting revised Census Bureau data on shipments of aircraft.

Real gross domestic purchases increased 6.3 percent, 0.2 percentage point more than the preliminary estimate; in the second quarter, this measure increased 3.2 percent.² Real final sales of domestic product increased 4.5 percent, 0.1 percentage point less than the preliminary estimate; in the second quarter, this measure increased 3.4 percent.³

Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, Third Quarter 1999

(Seasonally adjusted at annual rates)

	Percent change from preceding quarter		Final estimate minus preliminary estimate		
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars	Contribution to percent change in real GDP
Gross domestic product	5.5	5.7	0.2	2.9	.....
Less: Exports of goods and services	11.7	11.5	–2	–4	–.02
Goods	15.8	16.9	1.1	1.7	.07
Services	2.7	0	–2.7	–1.9	–.09
Plus: Imports of goods and services	14.6	14.9	.3	1.1	–.05
Goods	17.2	17.3	.1	.1	0
Services	1.7	3.6	1.9	1.0	–.04
Equals: Gross domestic purchases	6.1	6.3	.2	4.3	.....
Less: Change in private inventories .....	.....	.....	.....	4.1	.17
Farm .....	.....	.....	.....	–1	–.01
Nonfarm .....	.....	.....	.....	4.1	.17
Equals: Final sales to domestic purchasers	5.1	5.2	.1	.4	.....
Personal consumption expenditures	4.6	4.9	.3	4.5	.20
Durable goods	7.7	7.7	0	0	0
Nondurable goods	3.5	3.6	.1	.5	.02
Services	4.5	5.0	.5	3.9	.17
Fixed investment	8.3	6.8	–1.5	–5.4	–.24
Nonresidential	13.3	10.9	–2.4	–6.7	–.28
Structures	–1.5	–3.8	–2.3	–1.4	–.07
Equipment and software	18.2	15.7	–2.5	–5.3	–.21
Residential	–4.8	–3.8	1.0	1.0	.05
Government consumption expenditures and gross investment	4.2	4.5	.3	1.1	.05
Federal	3.9	4.1	.2	.4	.02
National defense	11.4	11.2	–2	–2	–.01
Nondefense	–8.1	–7.1	1.0	.5	.03
State and local	4.4	4.8	.4	.8	.04
Addenda:					
Final sales of domestic product	4.6	4.5	–.1	–8	.....
Gross national product	5.4	5.6	.2	4.9	.....
Gross domestic purchases price index	1.7	1.7	0	.....	.....
GDP price index	1.1	1.1	0	.....	.....

NOTE.—The final estimates for the third quarter of 1999 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for September, stock exchange transactions for August and September, and electricity usage for August.

Private nonresidential fixed investment: Revised construction put in place for August and September and revised manufacturers' shipments of machinery and equipment for September.

Private residential fixed investment: Revised construction put in place for August and September, revised housing starts for September, and revised sales of new homes for July through September.

Change in private inventories: Revised manufacturing and trade inventories for September.

Exports and imports of goods and services: Revised data on exports and imports of goods for September and revised balance-of-payments data on exports and imports of services for the quarter.

Government consumption expenditures and gross investment: Revised State and local construction put in place for August and September.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for September.

GDP prices: Revised export and import prices for July through September, revised values and quantities of petroleum imports for September, and revised prices of single-family homes under construction for the quarter.

2. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—equals GDP less exports of goods and services plus imports of goods and services; it also equals the sum of personal consumption expenditures, private fixed investment, change in private inventories, and government consumption expenditures and gross investment.

3. Final sales of domestic product equals GDP less change in private inventories; it also equals the sum of personal consumption expenditures,

The price index for gross domestic purchases increased 1.7 percent, the same as the preliminary estimate; in the second quarter, the index increased 1.9 percent. The price index for GDP increased 1.1 percent, the same as the preliminary estimate; in the second quarter, the index increased 1.4 percent. The price index for gross domestic purchases increased more than the price index for GDP in the third quarter, primarily reflecting an increase in import prices (which are not included in GDP prices). Import prices increased 6.2 percent in the third quarter, primarily reflecting a sharp increase in petroleum product prices.

Real disposable personal income (DPI) increased 2.9 percent in the third quarter, 0.2 percentage point more than the preliminary estimate. The upward revision was primarily accounted for by an upward revision to personal income, largely to personal interest income.

The personal saving rate—personal saving as a percentage of current-dollar DPI—was 2.1 percent, the same as the preliminary estimate; in the second quarter, the rate was 2.5 percent.

Gross national product (GNP).—In the third quarter, real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 5.6 percent, 0.1 percentage point less than real GDP (table 4).⁴ Income receipts from the rest of the world increased slightly less than income payments to the rest of the world; cor-

porate profits accounted for about half of the increase in receipts, and interest income accounted for most of the increase in payments.

Real GNP on a command basis, which measures the purchasing power of goods and services produced by the U.S. economy, increased less than real GNP—5.1 percent, compared with 5.6 percent—reflecting a deterioration in the terms of trade.⁵ In the second quarter, real GNP on a command basis also increased less than real GNP—1.4 percent, compared with 1.9 percent.

Corporate Profits

According to revised estimates, profits from current production increased \$3.7 billion (or 0.4 percent at a quarterly rate) in the third quarter after decreasing \$6.5 billion (0.7 percent) in the second (table 5).⁶ Third-quarter profits were

5. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16c (see "Selected NIPA Tables," which begins on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

private fixed investment, and government consumption expenditures and gross investment.

4. GNP equals GDP plus income receipts from the rest of the world less income payments to the rest of the world.

Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product

[Seasonally adjusted at annual rates]

	Billions of chained (1996) dollars					Percent change from preceding quarter			
	Level		Change from preceding quarter			1998		1999	
	1999	1998	1999			IV	I	II	III
	III	IV	I	II	III				
Gross domestic product	8,900.6	123.2	78.7	40.7	122.0	5.9	3.7	1.9	5.7
Plus: Income receipts from the rest of the world	296.5	3.7	2.0	10.6	9.9	5.6	3.0	16.3	14.5
Less: Income payments to the rest of the world	311.8	-4.5	-6	10.4	10.7	-6.0	-9	15.1	15.0
Equals: Gross national product	8,885.5	131.3	81.4	41.0	121.2	6.3	3.8	1.9	5.6
Less: Exports of goods and services and income receipts from the rest of the world	1,351.5	41.1	-12.0	21.1	38.4	13.7	-3.6	6.7	12.2
Plus: Command-basis exports of goods and services and income receipts from the rest of the world ¹	1,391.6	40.4	-5.7	10.2	26.4	12.8	-1.7	3.0	8.0
Equals: Command-basis gross national product	8,925.6	130.7	87.6	30.0	109.3	6.2	4.1	1.4	5.1
Addendum: Terms of trade ²	103.0	-2	.6	-9	-1.0	-8	2.3	-3.4	-3.8

1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts

to the corresponding implicit price deflator for imports divided by 100.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are in NIPA tables 1.10 and 1.11.

reduced by about \$10 billion (revised) as a result of Hurricane Floyd, which made landfall in North Carolina in mid-September; benefits paid by insurance companies reduced profits by about \$8 billion, and uninsured corporate losses reduced profits by about \$2 billion.

Profits of domestic nonfinancial corporations decreased \$5.5 billion (0.9 percent) after increasing \$2.2 billion (0.4 percent); unit profits decreased, reflecting increased unit costs and unchanged unit prices. Profits of domestic financial corporations increased \$4.4 billion (2.5 percent) after decreasing \$7.8 billion (4.2 percent). Profits from the rest of the world increased \$4.8 billion (4.6 percent) after decreasing \$1.0 billion (0.9 percent); the increase was more than accounted for by receipts of earnings from foreign affiliates.⁷

The revised estimate of profits from current production is \$4.5 billion lower than the preliminary estimate. Downward revisions to prof-

its from the rest of the world and to profits of domestic nonfinancial industries were only partly offset by an upward revision to profits of domestic financial industries.

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$12.3 billion after decreasing \$6.7 billion.⁸ The ratio of cash flow to nonresidential fixed investment, an indicator of the share of the current level of investment that could be financed by internally generated funds, decreased from 79.3 percent to 78.6 percent, its lowest level since 1990; the ratio's average level for 1990–98 was 84.9 percent.

Domestic industry profits and related measures.—Domestic industry profits increased \$0.1 billion after decreasing \$8.2 billion. Profits of domestic nonfinancial corporations decreased \$5.5 billion after decreasing \$1.3 billion.⁹ Profits of

7. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

8. Cash flow from current production equals undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

9. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16c (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only

Table 5.—Corporate Profits

[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter				1998	1999		
	1999	1998	1999			IV	I	II	III
	III	IV	I	II	III				
Profits from current production	879.2	-9.5	47.7	-6.5	3.7	-1.1	5.7	-0.7	0.4
Domestic industries	771.1	-21.2	41.7	-5.6	-1.0	-2.8	5.7	-7	-1
Financial	181.8	-7	17.2	-7.8	4.4	-4	10.2	-4.2	2.5
Nonfinancial	589.2	-20.5	24.5	2.2	-5.5	-3.5	4.3	.4	-9
Rest of the world	108.1	11.7	6.0	-1.0	4.8	13.5	6.1	-9	4.6
Receipts (inflows)	169.5	9.7	10.2	7.1	5.4	7.0	7.0	4.5	3.3
Payments (outflows)	61.4	-2.0	4.2	8.1	.6	-4.1	8.8	15.2	1.0
IVA	-26.7	1.0	-7.5	-26.9	-13.1	.....	.....	.....	.....
CCAdj	52.1	3.0	3.7	2.6	-1.1	.....	.....	.....	.....
Profits before tax	853.8	-13.4	51.4	17.7	18.0	-1.7	6.7	2.2	2.1
Profits tax liability	259.4	-8.7	12.4	6.4	5.0	-3.5	5.3	2.6	2.0
Profits after tax	594.3	-4.8	39.1	11.3	12.9	-9	7.4	2.0	2.2
Cash flow from current production	929.0	7.5	39.8	-6.7	12.3	.9	4.5	-7	1.3
Domestic industry profits:									
Corporate profits of domestic industries with IVA	719.0	-24.1	38.0	-8.2	.1	-3.4	5.5	-1.1	0
Financial	203.9	-9	16.7	-7.0	5.6	-5	8.9	-3.4	2.8
Nonfinancial	515.1	-23.1	21.3	-1.3	-5.5	-4.4	4.3	-2	-1.1
Manufacturing	163.1	-10.2	9.3	-3.2	-4.7	-5.9	5.7	-1.9	-2.8
Transportation and public utilities	117.3	-6.1	5.0	-4.0	9.4	-5.4	4.7	-3.6	8.8
Wholesale trade	39.1	-8.5	2.2	.9	-5.2	-17.1	5.3	2.2	-11.9
Retail trade	67.7	-3	6.7	-.3	-7.7	-.4	9.7	-.4	-10.2
Other	127.9	1.8	-1.9	5.4	2.7	1.5	-1.5	4.5	2.2
Dollars									
Unit price, costs, and profits of nonfinancial corporations:									
Unit price	1.012	0	0.001	0.003	0	.....	.....	.....	.....
Unit labor cost .....	.650	.002	.001	.002	.001	.....	.....	.....	.....
Unit nonlabor cost .....	.246	.002	-.002	.001	.002	.....	.....	.....	.....
Unit profits from current production .....	.115	-.005	.003	-.001	-.003	.....	.....	.....	.....

NOTE.—Levels of these and other profits series are in NIPA tables 1.14, 1.16, 6.16C, and 7.15.


IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

retail trade, of wholesale trade, and of manufacturing decreased; in contrast, profits of the transportation and utility group increased. Profits of domestic financial corporations increased \$5.6 billion after decreasing \$7.0 billion.

Profits before tax (PBT) increased \$18.0 billion after increasing \$17.7 billion. The difference between the \$18.0 billion increase in PBT and the \$3.7 billion increase in profits from current production mainly reflected a larger negative level of

for total financial and total nonfinancial industries and for rest-of-the-world profits.

the inventory valuation adjustment (IVA). The IVA removes inventory profits and losses from business income.¹⁰ In the third quarter, inventory profits amounted to \$26.7 billion, up from \$13.6 billion in the second quarter. 

10. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, and inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPA's, inventory profits or losses are removed from domestic business incomes by the inventory valuation adjustment; a negative IVA removes inventory profits, and a positive IVA removes inventory losses.